

# **COUNTY OF MCHENRY**

Woodstock, Illinois

COMMUNICATION TO THOSE CHARGED  
WITH GOVERNANCE AND MANAGEMENT

As of and for the Year Ended November 30, 2017

# COUNTY OF McHENRY

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**REQUIRED COMMUNICATION OF INTERNAL CONTROL RELATED MATTERS  
IDENTIFIED IN THE AUDIT TO THOSE CHARGED WITH GOVERNANCE**

To the Members of the Board and Management  
of the County of McHenry, Illinois

In planning and performing our audit of the financial statements of the County of McHenry as of and for the year ended November 30, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of its internal control. Accordingly, we do not express an opinion on the effectiveness of its internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies in the county's internal control to be material weaknesses.

- > Internal Control Over Financial Reporting
- > Investments

The County of McHenry's written response to the material weaknesses identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of the management, the County Board, and others within the organization and is not intended to be, and should not be, used by anyone other than these specified parties.

*Baker Tilly Virchow Krause, LLP*

Chicago, Illinois  
July 24, 2018

Auditing standards require that we perform procedures to obtain an understanding of your government and its internal control environment as part of the annual audit. This includes an analysis of significant transaction cycles and an analysis of the county's year-end financial reporting process and preparation of your financial statements.

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## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

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Properly designed systems of internal control provide your organization with the ability to process and record monthly and year-end transactions and annual financial reports.

Our audit included a review and evaluation of the county's internal controls relating to financial reporting. Common attributes of a properly designed system of internal control for financial reporting are as follows:

- > There is adequate staffing to prepare financial reports throughout the year and at year-end.
- > Material misstatements are identified and corrected during the normal course of duties.
- > Complete and accurate financial statements including footnotes are prepared.
- > Financial reports are reviewed for completeness and accuracy.

Our evaluation of the county's internal controls over financial reporting has identified control deficiencies that are considered material weaknesses surrounding the preparation of financial statements and footnotes, adjusting journal entries identified by the auditors, an independent review of financial reports and county-posted adjusting entries.

Management has not prepared a complete set of financial statements that are in conformity with generally accepted accounting principles and relied upon the auditors to prepare some sections. In addition, material misstatements in the general ledger were identified during the financial audit, adjusting entries posted by the county were not independently reviewed, and the county was generally not prepared for the audit at a level that would prevent material misstatements.

### ***Management's Response (11/30/2017)***

#### ***Associate County Administrator – Finance and County Auditor Management Response***

Significant staff resources were allocated to implement the countywide new financial system, Microsoft Dynamics 365 (D365). After some consideration, it was decided that the financial system would be implemented with no new head count. The D365 system is expected to go-live for accounting and financial reporting December 1, 2018. As a prerequisite to implementation, the Auditor's Office was charged with testing, installation, and county wide training of a paperless invoice approval process.

During these commitments, two members of the implementation core team the County Auditor and Purchasing Director retired unexpectedly. In addition, the Internal Auditor position resigned. These positions were vacant for more than 90 days. With the eventual appointment of the County Auditor, the County Board concurrently made the decision to reassign the accounting/financial reporting responsibilities to the Associate County Administer – Finance. This change in duties was made effective June 11, 2018. These circumstances led management to have Baker Tilly assist in preparing a portion of the financial statements, so remaining staff resources could be allocated to these high priority projects. The Auditor's Office staff did a notable job of completing the year-end accounting and financial reporting duties within the time constraints allowed while working on the implementation of the new financial system and paperless bill approval process all with a reduction in staff levels.

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## **INTERNAL CONTROL OVER FINANCIAL REPORTING (cont.)**

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### ***Management's Response (11/30/2017) (cont.)***

#### *Associate County Administrator – Finance and County Auditor Management Response (cont.)*

With the move of the financial reporting to County Administration there will be additional staff utilized to reconcile, review, and prepare the needed information on a routine basis as required for the audit. The Financial Team of the County is committed to ensuring all future audits have no findings, although fiscal year 2018 is still a transition year for the Finance team. During the fall of 2018, the Auditor's Office will be assisting County Administration by reviewing and updating the financial reporting internal controls. Workflow reviews of material journal entries and added internal controls are planned to be built-in to D365 to ensure accuracy of financial reporting. The Auditor's Office will provide assistance in training the Finance department and in the design of the financial reporting configuration in the new system to ensure continued success.

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## **INVESTMENTS**

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During fiscal 2016, the county began investing in mortgaged-backed securities and municipal bonds. The amount invested at year-end was approximately \$14.4 million. Historically, the county held all of its available funds in depository accounts such as checking, saving, and certificates of deposits, with the exception of a comparatively small amount invested with Illinois Funds. The transition to investing in these types of instruments requires modification to the methodology used to account for their value. Some of the items to consider include:

- > We recommend the investment accounts be adjusted to the market value as reported by the county's broker(s). As changes to the investment values are experienced through realized and unrealized gains/losses, investment income/losses, sales and purchases, or any other transactions affecting their value, entries should be made to the investment asset account and an offsetting entry to an investment income account.
- > The activity should be maintained and accounted for separate from the county's cash depository accounts so as to avoid confusion.
- > The county should familiarize itself with the associated risks for each type of investment held. The accounting standard that governs investments is Governmental Accounting Standards Board (GASB) Statement No. 40, Deposit and Investment Risk Disclosures.
- > The county should understand the additional financial reporting requirements for each type of investment it holds at year-end.
- > The county should consider reporting the performance of the investment portfolio to either an existing committee or a similar oversight body. This would allow the county to make sure its investment objectives were being met. It would also provide additional controls over the review of investment decisions and results.

We are available to assist with questions as you consider these and other changes to the county's current procedures.

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**INVESTMENTS (cont.)**

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**Status (11/30/2017)**

During fiscal 2017, the county increased its investment portfolio being held in both the General Fund and the Valley Hi Enterprise fund. While the county has begun to use separate investment accounts in these two funds, the amounts being reported were materially different when compared to amounts being reported by the broker. Since we first reported these recommendations to you last year, the investment accounts were still not being adjusted to market value as required by the accounting standards. This resulted in material adjustments during the course of the audit. We continue to recommend all of the items noted above to accurately account for and report these investments.

**Management's Response (11/30/2017)***County Treasurer and Associate County Administrator – Finance Management Response*

The Treasurer's Office recently purchased Sympro, an investment software that accounts for the many different investments an organization may hold. The system reports par/face values, book value, and the fair market value of each investment on a monthly basis. The Sympro system is in place and operating overall well. As part of the implementation of Dynamics 365 there will be an interface created that will allow for the updating of the fair market value each month to the general ledger. The investments will be delineated by investment type (Federally backed, State backed, etc.) and will contain summary data about each investment. The County will be able to separate out the investments so as not to account for them in the cash depository accounts. The Associate County Administrator – Finance will work with the Treasurer to establish a monthly report to the Finance and Audit Committee to ensure the investment objectives are being met, along with researching the reporting requirements to verify that the investments held in the County's portfolio are being reported as required for fiscal year 2018.

**COMMUNICATION OF OTHER RECOMMENDATIONS,  
AND INFORMATIONAL POINT TO MANAGEMENT THAT ARE NOT  
MATERIAL WEAKNESSES OR SIGNIFICANT DEFICIENCIES**



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## DECENTRALIZED CASH COLLECTIONS

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Many governments collect cash at numerous decentralized locations that are separate from the primary system of accounting procedures and controls. The opportunity for theft is often higher at those locations because one person is frequently involved in most, if not all, aspects of a transaction (i.e. lack of segregation of duties).

Examples in your County that fit this situation may include the following:

- > Human Resources
- > Division of Transportation
- > E911
- > Job Training
- > Mental Health
- > Recorder
- > Sheriff
- > Valley Hi
- > Health Department

Management is responsible for designing and implementing controls and procedures to detect and prevent fraud. As a result, we recommend that management review its decentralized cash collection procedures and controls on a periodic basis and make changes as necessary to strengthen the internal control environment. Reviewing the adequacy of the controls is a responsibility of the governing body.

Below are example procedures and controls to help mitigate the risk of loss at decentralized cash collection points:

- > Implement a centralized receipting process with adequate segregation of duties
- > For cash collections, ensure pre-numbered receipts are being used and all receipts in the sequence are being reviewed by someone other than the person receipting the cash and receipts tie to deposits
- > Perform surprise procedures at decentralized locations (cash counts, walkthrough of processes, etc.)
- > Require regular cash deposits to minimize collection on-hand
- > Limit the number of separate bank accounts
- > Segregate duties as much as possible – the person receipting cash should be separate from the person preparing deposits and the person reconciling bank accounts should be separate from the cash collection activity
- > Perform a month-to-month or year-to-year comparisons to look for unusual changes in collections
- > If collecting from a drop box site, consider sending two people to collect the funds, especially during peak times

As always, the cost of controls and staffing must be weighed against the benefits of safeguarding your assets.

**REQUIRED COMMUNICATIONS BY THE AUDITOR TO THOSE CHARGED WITH GOVERNANCE**

To the Members of the Board  
of the County of McHenry, Illinois

Thank you for using Baker Tilly Virchow Krause, LLP as your auditor.

We have completed our audit of the financial statements of the County of McHenry as of and for the year ended November 30, 2017 and have issued our report thereon dated July 24, 2018. This letter presents communications required by our professional standards.

***OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED  
IN THE UNITED STATES OF AMERICA, GOVERNMENT AUDITING STANDARDS,  
AND THE UNIFORM GUIDANCE***

The objective of a financial statement audit is the expression of an opinion on the financial statements. We conducted the audit in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, OMB's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards require that we plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements prepared by management with your oversight are free of material misstatement, whether caused by error or fraud. Our audit included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit does not relieve management or those charged with governance of their responsibilities.

We considered the County of McHenry's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County of McHenry's internal control over financial reporting. We also considered internal control over compliance with types of requirements that could have a direct and material effect on a major federal program to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for a major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance.

As part of obtaining reasonable assurance about whether the County of McHenry's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with the Uniform Guidance, we examined, on a test basis, evidence about the County of McHenry's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the purpose of expressing an opinion on the County of McHenry's compliance with those requirements. While our audit provides a reasonable basis for our opinion on compliance, it does not provide a legal determination on the County of McHenry's compliance with those requirements.

We will issue a separate document, which contains the results of our audit procedures to comply with the Uniform Guidance.

## ***OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS***

Our responsibility does not extend beyond the audited financial statements identified in this report. We do not have any obligation to and have not performed any procedures to corroborate other information contained in client prepared documents, such as official statement related to debt issues.

## ***PLANNED SCOPE AND TIMING OF THE AUDIT***

We performed the audit according to the planned scope and timing previously communicated to you at our meeting about planning matters on January 4, 2018.

## ***QUALITATIVE ASPECTS OF THE ENTITY'S SIGNIFICANT ACCOUNTING PRACTICES***

### ***Accounting Policies***

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the County of McHenry, Illinois are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the County of McHenry during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### ***Accounting Estimates***

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the allowance for doubtful accounts within the Valley Hi enterprise fund is based on historical data and an analysis of the collectability of individual accounts.

The estimate of the self-insurance claims liabilities, which are based on a historical claim's analysis and report prepared by the County's third party administrators.

The estimate of the other post employment benefits liability, which is based on an actuarial study.

The net pension liability and related deferred inflows/outflows of resources reported in relation to IMRF, which is supported by actuarial studies using census date of the County's plan participants.

We have evaluated the key factors and assumptions used in developing the aforementioned estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

### ***Financial Statement Disclosures***

The disclosures in the notes to the financial statements are neutral, consistent, and clear.

## ***DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT***

We encountered no significant difficulties in dealing with management in performing our audit.

### ***CORRECTED AND UNCORRECTED MISSTATEMENTS***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

In 2017, the net pension liability and expense were overstated for the governmental activities, business-type activities, and the Valley Hi enterprise fund in the amount of \$1,875,443, \$186,508, and \$186,508, respectively. This was due to inconsistencies between the actuarial reports and audited information provided by IMRF and the IMRF actuaries for the Regular and SLEP plan fiduciary net position. In 2016, the net pension liability and expense were understated for the same reason. The net effect of these differences is that the liabilities are overstated by \$1,875,443, \$186,508, and \$186,508, and the expenses are overstated by \$3,327,251, \$323,613, and \$323,613, for the governmental activities, business-type activities, and the Valley Hi enterprise fund, respectively.

In addition, the general fund reported several departmental cash accounts as assets with corresponding liabilities rather than revenues and expenditures for both 2016 and 2017. The net effect of these is liabilities are overstated by \$517,164, revenues are understated by \$266,728, expenditures are understated by \$110,181, and fund balance is understated by \$156,547.

Management has determined that the effect of all of these items is immaterial to the financial statements taken as a whole.

The following is a summary of material financial statement misstatements (audit adjustments):

	<u>Amount</u>
Adjust investments in the General and Valley Hi funds	\$ 17,960,869
Adjust the pension liability, deferred inflows, outflows, and expense in the Valley Hi fund	685,606
Adjust for grant receivable in the 911 fund	2,342,473
Adjust taxes receivable in the General fund	480,000

In addition, we prepared GASB No. 34 conversion entries which are summarized in the "Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position" and the "Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities" in the financial statements.

### ***DISAGREEMENTS WITH MANAGEMENT***

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

### ***CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS***

In some cases, management may decide to consult with other accountants about auditing and accounting matters. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### ***MANAGEMENT REPRESENTATIONS***

We have requested certain representations from management that are included in the management representation letter. This letter follows this required communication.

## ***INDEPENDENCE***

We are not aware of any relationships between Baker Tilly Virchow Krause, LLP and the County of McHenry that, in our professional judgment, may reasonably be thought to bear on our independence.

Relating to our audit of the financial statements of the County of McHenry for the year ended November 30, 2017, Baker Tilly Virchow Krause, LLP hereby confirms that we are, in our professional judgment, independent with respect to the County of McHenry in accordance with the Code of Professional Conduct issued by the American Institute of Certified Public Accountants, and we provided no services to the County of McHenry other than audit services provided in connection with the audit of the current year's financial statements and nonaudit services which in our judgment do not impair our independence.

- > Financial Statement preparation
- > Adjusting journal entries
- > Temporary staffing assistance

None of these nonaudit services constitute an audit under generally accepted auditing standards, including *Government Auditing Standards*.

## ***OTHER AUDIT FINDINGS OR ISSUES***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the County of McHenry's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

## ***OTHER MATTERS***

We applied certain limited procedures to the required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the supplementary information which accompanies the financial statements but is not RSI. With respect to the supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the other information, which accompanies the financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

***RESTRICTION ON USE***

This information is intended solely for the use of the County Board and management and is not intended to be, and should not be, used by anyone other than the specified parties.

In closing, we would like to thank you for allowing us to serve you. We are very interested in the long-term success of the County of McHenry and our comments are intended to draw your attention to issues, which should be addressed for the County to meet its goals and responsibilities.

This letter, by its nature, focuses on improvements and does not comment on the strong areas of the County's systems and procedures. The comments and suggestions in this report are not intended to reflect in any way on the integrity or ability of the personnel of the County. They are made solely in the interest of establishing sound internal control practices and improving the County's financial operations.

The County staff was receptive to our ideas, comments and suggestions.

We will review the status of these comments during the next audit engagement. We have already discussed the previous comments and suggestions with various County personnel and we would be pleased to discuss them with you in further detail.

*Baker Tilly Virchow Krause, LLP*

Chicago, Illinois  
July 24, 2018

## **MANAGEMENT REPRESENTATIONS**



SHANNON TERESI, MAS, CPA,  
CIA, CRMA, CFE  
COUNTY AUDITOR

OFFICE OF  
**THE COUNTY AUDITOR**  
McHENRY COUNTY, ILLINOIS  
2200 NORTH SEMINARY AVENUE  
WOODSTOCK, ILLINOIS 60098

PHONE: 815 334-4203  
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July 24, 2018

Baker Tilly Virchow Krause, LLP  
205 North Michigan Avenue  
Chicago, IL 60601-5927

Dear Baker Tilly Virchow Krause, LLP:

We are providing this letter in connection with your audit of the financial statements of the County of McHenry as of November 30, 2017 and for the year then ended for the purpose of expressing opinions as to whether the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the County of McHenry and the respective changes in financial position and cash flows, where applicable, in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control over financial reporting, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

*Financial Statements*

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter.
2. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America. We have engaged you to advise us in fulfilling that responsibility. The financial statements include all properly classified funds of the primary government and all component units required by accounting principles generally accepted in the United States of America to be included in the financial reporting entity.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. Significant assumptions we used in making accounting estimates, if any, are reasonable.

- 6 All events subsequent to the date of the financial statements and for which accounting principles generally accepted in the United States of America require adjustment or disclosure have been adjusted or disclosed. No other events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements or in the schedule of findings and questioned costs.
- 7 All material transactions have been recorded in the accounting records and are reflected in the financial statements and the schedule of expenditures of federal awards.
- 8 We believe the effects of the uncorrected financial statement misstatements listed here are immaterial, both individually and in the aggregate, to the basic financial statements as a whole. In 2017, the net pension liability and expense were overstated for the governmental activities, business-type activities, and the Valley Hi enterprise fund in the amount of \$1,875,443, \$186,508, and \$186,508, respectively. This was due to inconsistencies between the actuarial reports and audited information provided by IMRF and the IMRF actuaries for the Regular and SLEP plan fiduciary net position. In 2016, the net pension liability and expense were understated for the same reason. The net effect of these differences is that the liabilities are overstated by \$1,875,443, \$186,508, and \$186,508, and the expenses are overstated by \$3,327,251, \$323,613, and \$323,613, for the governmental activities, business-type activities, and the Valley Hi enterprise fund, respectively. In addition, the general fund reported several departmental cash accounts as assets with corresponding liabilities rather than revenues and expenditures for both 2016 and 2017. The net effect of these is liabilities are overstated by \$517,164, revenues are understated by \$266,728, expenditures are understated by \$110,181, and fund balance is understated by \$156,547. In addition, you have recommended adjusting journal entries, and we are in agreement with those adjustments.
- 9 The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America.
- 10 Guarantees, whether written or oral, under which the County of McHenry is contingently liable, if any, have been properly recorded or disclosed.

*Information Provided*

- 11 We have provided you with
- a Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as financial records and related data, documentation, and other matters and all audit or relevant monitoring reports, if any, received from funding sources.
  - b Additional information that you have requested from us for the purpose of the audit.
  - c Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
  - d Minutes of the meetings of the County Board and Finance and Audit Committee or summaries of actions of recent meetings for which minutes have not yet been prepared.
- 12 We have not completed an assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- 13 We have no knowledge of any fraud or suspected fraud that affects the entity and involves
- a We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, regulators, or others.
  - b Employees who have significant roles in internal control, or
  - c Others where the fraud could have a material effect on the financial statements.
- 14 We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, regulators, or others.

15 We have no knowledge of known instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements

16 There are no known related parties or related party relationships and transactions of which we are aware

*Other*

17 There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices

18 We have a process to track the status of audit findings and recommendations

19 We have identified to you any previous financial audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented

20 We have provided our views on reported findings conclusions, and recommendations, as well as our planned corrective actions, for our report

21 The County of McHenry has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity

22 We are responsible for compliance with federal, state, and local laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits, debt contracts, and IRS arbitrage regulations, and we have identified and disclosed to you all federal, state, and local laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds

23 There are no

- a Violations or possible violations of budget ordinances, federal, state, and local laws or regulations (including those pertaining to adopting, approving and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, or for reporting on noncompliance, except those already disclosed in the financial statement, if any
- b Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by accounting principles generally accepted in the United States of America
- c Nonspendable, restricted, committed, or assigned fund balances that were not properly authorized and approved
- d Rates being charged to customers other than the rates as authorized by the applicable authoritative body
- e Violations of restrictions placed on revenues as a result of bond resolution covenants such as revenue distribution or debt service funding

24 In regards to the nonattest services performed by you listed below, we have 1) accepted all management responsibility, 2) designated an individual with suitable skill, knowledge or experience to oversee the services, 3) evaluated the adequacy and results of the services performed, and 4) accepted responsibility for the results of the services

- a Financial statement preparation
- b Adjusting journal entries

None of these nonattest services constitute an audit under generally accepted auditing standards, including *Government Auditing Standards*

25 The County of McHenry has satisfactory title to all owned assets and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral

26 The County of McHenry has complied with all aspects of contractual agreements that would have a material effect on the financial statement in the event of noncompliance

27 The financial statements include all component units and properly disclose all related organizations

28 The financial statements properly classify all funds and activities

29 All funds that meet the quantitative criteria in GASB Statement No. 34 and No. 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users

30 Components of net position (net investment in capital assets, restricted, and unrestricted) and components of fund balance (nonspendable, restricted, committed, assigned and unassigned) are properly classified and, if applicable, approved

31 The County of McHenry has no derivative financial instruments such as contracts that could be assigned to someone else or net settled, interest rate swaps, collars or caps

32 Provisions for uncollectible receivables, if any, have been properly identified and recorded

33 Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis

34 Revenues are appropriately classified in the statement of activities within program revenues and general revenues

35 Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported

36 Deposits and investments are properly classified, valued, and disclosed (including risk disclosures, collateralization agreements, valuation methods, and key inputs, as applicable)

37 Provision, when material, has been made to reduce excess or obsolete inventories to their estimated net realizable value

38 Capital assets, including infrastructure and intangible assets, are properly capitalized, reported and if applicable, depreciated/amortized. Any known impairments have been recorded and disclosed

39 Tax-exempt bonds issued have retained their tax-exempt status

- 40 We have appropriately disclosed the County of McHenry's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available and have determined that net position were properly recognized under the policy. We have also disclosed our policy regarding which resources (that is, restricted, committed, assigned or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available.
- 41 We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
- 42 With respect to the supplementary information, (SI)
- a We acknowledge our responsibility for presenting the SI in accordance with accounting principles generally accepted in the United States of America, and we believe the SI, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the SI have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.
  - b If the SI is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.
- 43 We assume responsibility for, and agree with, the findings of specialists in evaluating the incurred but not reported liability and the other post-employment benefit liabilities accrued and have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had impact on the independence or objectivity of the specialists.
- 44 We are responsible for the estimation methods and assumptions used in measuring assets and liabilities reported or disclosed at fair value, including information obtained from brokers, pricing services or third parties. Our valuation methodologies have been consistently applied from period to period. The fair value measurements reported or disclosed represent our best estimate of fair value as the measurement date in accordance with the requirements of GASB 72 – *Fair Value Measurement*. In addition our disclosures related to fair value measurements are consistent with the objectives outlined in GASB 72. We have evaluated the fair value information provided to us by brokers, pricing services or other parties that has been used in the financial statements and believe this information to be reliable and consistent with the requirements.
- 45 With respect to federal award programs
- a We are responsible for understanding and complying with and have complied with the requirements of the Single Audit Act Amendments of 1996, *OMB's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), including requirements relating to preparation of the schedule of expenditures of federal awards (SEFA).
  - b We acknowledge our responsibility for presenting the SEFA in accordance with the requirements of the Uniform Guidance and we believe the SEFA, including its form and content, is fairly presented in accordance with the Uniform Guidance. The methods of measurement and presentation of the SEFA have not changed from those used in the prior period and we have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the SEFA.

- c If the SEFA is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the SEFA no later than the date we issue the SEFA and the auditors' report thereon
- d We have identified and disclosed to you all of our government programs and related activities subject to the Uniform Guidance and included in the SEFA, expenditures made during the audit period for all awards provided by federal agencies in the form of grants, federal cost reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other direct assistance
- e We are responsible for understanding and complying with, and have complied with the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs and have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major federal program
- f We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal programs that provide reasonable assurance that we are administering our federal awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal programs. We believe the internal control system is adequate and is functioning as intended. Also, no changes have been made in the internal control over compliance or other factors to the date of this letter that might significantly affect internal control, including any corrective action taken with regard to control deficiencies reported in the schedule of findings and questioned costs
- g We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relevant to the programs and related activities
- h We have received no requests from a federal agency to audit one or more specific programs as a major program
- i We have complied with the direct and material compliance requirements including when applicable, those set forth in the OMB Compliance Supplement relating to federal awards and have identified and disclosed to you all amounts questioned and any known noncompliance with the direct and material compliance requirements of federal awards
- j We have disclosed any communications from grantors and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditors' report
- k We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation agreements, and internal or external monitoring that directly relate to the objectives of the compliance audit, if any, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditors' report
- l Amounts claimed or used for matching were determined in accordance with relevant guidelines in the Uniform Guidance
- m We have disclosed to you our interpretation of compliance requirements that may have varying interpretations
- n We have made available to you all documentation related to the compliance with the direct and material compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements

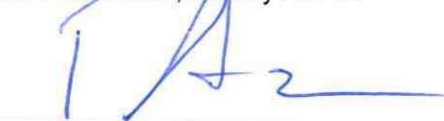


- o. We have disclosed to you the nature of any subsequent events that provide additional evidence about conditions that existed at the end of the reporting period affecting noncompliance during the reporting period.
- p. We are not aware of any instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditors' report.
- q. No changes have been made in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies or material weaknesses in internal control over compliance, subsequent to the date as of which compliance was audited.
- r. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.
- s. The copies of federal program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.
- t. We have monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of the Uniform Guidance.
- u. We have taken appropriate action, including issuing management decisions, on a timely basis after receipt of subrecipients' auditors' reports that identified noncompliance with laws, regulations, or the provisions of contracts or grant agreements to ensure that subrecipients have taken the appropriate and timely corrective action on findings.
- v. We have considered the results of subrecipient audits and made any necessary adjustments to our books and records.
- w. We have charged costs to federal awards in accordance with applicable cost principles.
- x. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by the Uniform Guidance and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
- y. We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by the Uniform Guidance.
- z. We are responsible for preparing and implementing a corrective action plan for each audit finding.

Sincerely,

County of McHenry

Signed:   
Shannon Teresi, County Auditor

Signed:   
Peter Austin, County Administrator